

Property Tax Issues

**Jim Nunns, Tax Policy Director
N.M. Taxation and Revenue Department**

**Presented to the
Revenue Stabilization and Tax Policy Committee**

Fifth Meeting in 2008

October 16, 2008

Summary of Presentation

- **The State's Stake in the Property Tax**
- **What Are the Major Property Tax Issues?**
- **Considerations in Addressing the Major Property Tax Issues**
- **Some Other Property Tax Issues**

The State's Stake in the Property Tax

- **New Mexico relies less than nearly any other state on property tax revenues**
- **As shown in the table on the following page, in 2006 among the 50 states New Mexico ranks:**
 - **47th by total property tax revenue**
 - **50th by property tax as a percentage of total state and local taxes**
 - **48th by per capita property tax, and**
 - **47th by property tax as a percentage of personal income**
- **Further, the State's share of property tax revenues is less than 5%**
- **So, it might appear that property tax issues only affect local governments**
- **Despite this appearance, however, the State has a real stake in the property tax for several reasons**
 - **First, local governments' alternative sources of revenue are primarily from distributions of State tax revenues, local gross receipts tax rates, and State-supported spending**
 - **The State therefore largely fills the gap between local governments' expenditures and their property tax revenues**
 - **In addition to the direct impact on State resources, the result may also be to limit the State's ability to raise revenue from its own taxes because resistance rises with the level of tax rates**
 - **Second, the property tax is a quite stable source of revenue, so reliance on other sources increases the volatility of revenue for all governments, State and local**
 - **Third, property tax issues affect all local governments, so all New Mexicans and New Mexico businesses**

2006 State and Local Property Tax Comparisons								
State	Property Tax Revenue		Property Tax as a Percentage of State and Local Taxes		Per Capita Property Tax		Property Tax as a Percentage of Personal Income	
	Amount (in millions)	State Rank	Percentage	State Rank	Amount	State Rank	Percentage	State Rank
Alabama	\$1,927	35	15.09%	47	\$420	50	1.36%	50
Alaska.....	\$969	46	26.44%	33	\$1,431	12	3.75%	14
Arizona.....	\$5,524	19	27.70%	28	\$896	35	2.81%	31
Arkansas	\$1,320	39	15.09%	47	\$470	49	1.65%	46
California	\$37,225	1	22.73%	40	\$1,027	28	2.59%	36
Colorado	\$5,269	21	30.59%	22	\$1,106	23	2.80%	32
Connecticut	\$7,566	15	38.07%	7	\$2,164	2	4.26%	8
Delaware	\$531	50	14.67%	49	\$622	43	1.59%	48
Florida	\$23,045	4	34.55%	14	\$1,276	16	3.48%	18
Georgia	\$8,946	12	28.83%	27	\$958	33	2.98%	28
Hawaii	\$983	45	15.85%	45	\$769	39	2.08%	43
Idaho	\$1,239	40	27.51%	29	\$846	37	2.83%	30
Illinois	\$19,555	6	37.50%	9	\$1,530	10	3.98%	11
Indiana	\$8,408	13	36.63%	10	\$1,334	15	4.13%	10
Iowa	\$3,392	26	33.07%	16	\$1,141	21	3.45%	19
Kansas	\$3,274	27	31.32%	20	\$1,188	19	3.41%	20
Kentucky	\$2,421	31	17.85%	43	\$576	46	1.94%	44
Louisiana	\$2,470	30	15.71%	46	\$582	45	1.83%	45
Maine	\$2,211	33	38.08%	6	\$1,681	9	5.24%	3
Maryland	\$5,962	18	23.12%	39	\$1,064	26	2.43%	40
Massachusetts	\$10,829	10	35.35%	12	\$1,683	8	3.64%	16
Michigan	\$13,525	8	37.55%	8	\$1,339	14	3.96%	12
Minnesota	\$5,341	20	23.75%	37	\$1,036	27	2.67%	33
Mississippi	\$2,076	34	25.38%	35	\$716	41	2.65%	34
Missouri	\$4,985	22	27.22%	31	\$854	36	2.60%	35
Montana	\$1,059	43	35.06%	13	\$1,118	22	3.63%	17
Nebraska	\$2,234	32	32.50%	17	\$1,267	17	3.68%	15
Nevada	\$2,509	29	25.70%	34	\$1,007	29	2.58%	37
New Hampshire ...	\$2,780	28	61.56%	1	\$2,120	3	5.33%	1
New Jersey	\$20,549	5	43.44%	2	\$2,371	1	5.07%	4
New Mexico	\$954	47	13.68%	50	\$491	48	1.64%	47
New York	\$36,438	2	29.47%	24	\$1,890	5	4.29%	7
North Carolina	\$6,985	16	23.27%	38	\$788	38	2.44%	39
North Dakota	\$634	49	26.79%	32	\$995	31	3.04%	26
Ohio	\$12,596	9	29.13%	25	\$1,099	24	3.30%	21
Oklahoma	\$1,802	38	16.01%	44	\$504	47	1.56%	49
Oregon	\$3,685	25	29.71%	23	\$998	30	3.00%	27
Pennsylvania	\$14,214	7	28.97%	26	\$1,146	20	3.11%	22
Rhode Island	\$1,888	36	40.34%	5	\$1,778	7	4.74%	5
South Carolina	\$3,960	24	31.82%	18	\$915	34	3.07%	23
South Dakota	\$767	48	34.24%	15	\$973	32	3.04%	25
Tennessee	\$4,126	23	23.93%	36	\$679	42	2.11%	41
Texas	\$32,486	3	42.90%	3	\$1,388	13	3.95%	13
Utah	\$1,877	37	22.66%	41	\$728	40	2.47%	38
Vermont	\$1,148	41	41.71%	4	\$1,850	6	5.30%	2
Virginia	\$9,233	11	30.72%	21	\$1,208	18	3.06%	24
Washington	\$6,911	17	27.46%	30	\$1,084	25	2.84%	29
West Virginia	\$1,059	42	18.00%	42	\$586	44	2.08%	42
Wisconsin	\$8,024	14	35.98%	11	\$1,440	11	4.18%	9
Wyoming	\$985	44	31.41%	19	\$1,921	4	4.73%	6

Source - Brookings UI, BEA and Census

What Are the Major Property Tax Issues?

- Others will address various property tax issues in more detail, so I will only summarize them here
- **Lack of Uniformity.** The most basic property tax issue is the lack of uniformity across properties of the same class (residential and nonresidential, with some distinctions within each class), and between classes of property
- This lack of uniformity has arisen primarily because of the interactions of:
 - The rapid increase in home prices over the past few years
 - The 3% cap on increases in residential valuations, which does not apply to new homeowners, and
 - The Yield Control formula
- **Low-Income Relief.** The other major issue is that the various mechanisms in current law for relieving high property tax burdens on low-income households are somewhat disjointed and not well targeted

Considerations in Addressing the Major Property Tax Issues

- The major issues are known qualitatively, but not quantitatively
- Detailed, reliable data is required to be able to quantify the effect of alternative options on:
 - The number and characteristics of property owners who would be “winners” or “losers” and
 - The size of their wins and losses under each option
- If an option would use non-property sources of revenue to “pay for” property tax reforms, detailed, reliable information on this source of revenue is also needed to fully quantify the effect of the option

Some Other Property Tax Issues

- **Tax Lightning.** Disparities in property tax burdens are perhaps most (painfully) apparent when a homeowner moves from a house they have owned for many years to a new home
 - Currently, there is no required disclosure of the likely property tax burden on the new homeowner, which may differ substantially from the burden on the current owner
- **Full Disclosures.** Currently, no disclosure is required of the terms of sale of nonresidential properties, and disclosure for residential properties is not always made
- **Statewide CAMA System.** Computer assisted mass appraisal (CAMA) systems help automate the appraisal process and make it more uniform
 - Currently, some counties use various CAMA systems, but most counties do not